

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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JUN 11 1997

Federal Communications Commission
Office of Secretary

In the Matter of
Access Charge Reform

DOCKET FILE COPY ORIGINAL

CC Docket :No. 96-262

Price Cap Performance Review
for Local Exchange Carriers

CC Docket No. 94-1

AFFIDAVIT OF ORVILLE D. FULP

I, Orville D. Fulp, being duly sworn, hereby declare the following;

1. I am Director-Network Access Services for GTE Telephone Operations ("GTE"). I am responsible for the development, introduction, and management of GTE network access services in the interexchange carrier market segment. I have over 10 years experience with GTE. During that time I have held various positions, primarily related to pricing, regulatory and product management functions.

2. In my capacity as Director-Network Access Services, I am familiar with the impact on GTE's telephone operating companies of the Commission's decisions that are the subject of GTE's comments to which this Affidavit is attached.

3. The Commission's rule change (§ 61.45(d)(2)(ii)) which requires the retention of the sharing obligation for the earnings prior to July 1, 1997, in addition to the increase in the X-factor to 6.5 percent (and the requirement to recalculate the PCIs "as if" the 6.5 percent X-Factor were in effect for the 1996 annual tariff filing) significantly increases the reductions that GTE must make in the 1997 annual access tariff filings for its tariff entities. Prior to the Commission's *Price Cap Order*, GTE had the option of selecting either a 4.0 percent, 4.7 percent or 5.3 percent productivity factor (§ 61.45(b)(1) and § 61.45(c)) for the Traffic Sensitive, Trunking and Common Line baskets in order to calculate

the annual access tariff filings impact. The first two options required GTE's tariff entities to share earnings if they had rates of return above specified levels. The third option, a productivity factor of 5.3 percent, did not require any sharing.

4. For the 1996 annual access tariff filing, some of GTE's tariff entities selected the 4.0 percent factor with a sharing requirement and others selected the 5.3 percent factor with no sharing requirement.

5. Some of the tariff entities that selected a 4.0 percent factor incurred sharing obligations for earnings during the period July 1, 1996, through December 31, 1996. Any additional sharing obligations for the period January 1, 1997, through June 30, 1997, have not been determined as the financial information required to calculate any obligations will not be available until the end of 1997. If sharing obligations for this latter period exist, those obligations would be reflected in the form of PCI reductions for the 1998 annual access year.

6. The attached chart shows the impact of the FCC's change in the price cap plan. This chart accurately reflects how GTE can expect to be harmed as a result of these changes.

7. Prior to calculating the effects of the new, single 6.5 percent X-Factor back to the 1996 annual tariff filing, GTE would have to make a \$196.4 million reduction in the upcoming 1997 annual access filing. This amount includes the X-Factor impact using 4.0 and 5.3 percent options, the June 3, 1997, within-band filing effects, the impact of CCL reductions due to the increased multiline business SLC cap to \$9, and the impact of the LTS exogenous adjustment (as required by NECA's May 21, 1997, update).

8. GTE's sharing obligations for 1996 earnings are treated as exogenous adjustments in the price cap formula on a tariff entity basis. Using the sharing levels currently in effect for the 4.0 percent productivity option, the impact of this sharing obligation is \$19.2 million (for the

time period July 1, 1996 to December 31, 1996) of the expected \$196.4 million reduction discussed above.

9. The *Price Cap Order* directs GTE to increase the X-Factor to 6.5 percent in all tariff entities (back to July 1, 1996, as stated above) in addition to retaining any sharing obligations associated with the previous selection of the 4.0 percent X-Factor, which will be reflected in the price cap formula as an exogenous adjustment.

10. GTE's estimated reduction for the 1997 annual access filing that reflects both the retention of the 4.0 percent X-Factor selection sharing obligation *and* the 6.5 percent X-Factor increase back to July 1, 1996, for all tariff entities is \$260.4 million.

11. GTE's estimated reduction for the 1997 annual access filing that reflects: 1) retention of the sharing obligation incurred for selecting the 4.0 percent X-Factor option in several tariff entities; 2) the retention of the 4.0 percent X-Factor option for those same tariff entities (not increasing the X-Factor to 6.5 percent in 1996); 3) an increase in the X-Factor to 6.5 percent for all other tariff entities in 1996 (those previously selecting 5.3 percent); and 4) an increase to 6.5 percent for all tariff entities in 1997; is \$228.7 million.

12. The incremental difference between the two scenarios is \$31.7 million. In effect, the impact of the *Price Cap Order* is requiring GTE to reduce its rates by this amount.

13. If GTE is required to adjust its PCIs for the new 6.5 percent X-Factor recalculated back to July 1, 1996, and to reflect sharing obligations associated with a 4.0 percent X-Factor selection for the same period as required by the *Price Cap Order*, it cannot expect to recoup these lost revenues at a future date if the FCC's decision is reversed on reconsideration or on appeal. Even if the FCC permits GTE to increase its rates at some future date, it may not be able to maintain those rates in the face of growing competition in the market for access services. GTE's access services increasingly are becoming subject to competitive pressures, particularly in

its California and Florida markets. And, it is in these markets where most of the price cap impact will occur. As GTE demonstrated in its comments filed in the above-captioned dockets, it is subject to significant and increasing competition for both switched and special access services. These competitive pressures can be expected to increase in the future as a result of the interconnection provisions of the 1996 Telecommunications Act and as a result of competitors continued construction of access facilities in GTE territories. This competition will effectively preclude GTE from increasing its rates in the future above the then current levels as would be necessary to recoup the losses that will be sustained by the instant order.

I declare under penalty of perjury under the laws of the United State of America that the foregoing is true and correct.



Orville D. Fulp

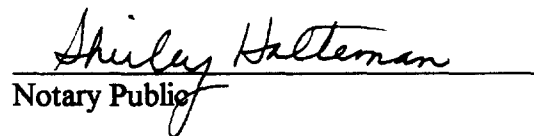
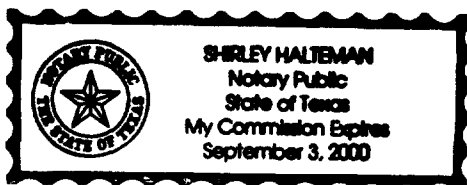
Dated: _____

6/9/97

STATE OF TEXAS

COUNTY OF DALLAS

SUBSCRIBED AND SWORN TO BEFORE ME by the said Orville D. Fulp on this 9th day of June, 1997.



Notary Public

Appendix
(all figures in millions)

	<i>INCREMENTAL REDUCTIONS</i>	<i>ANNUAL REDUCTIONS</i>
Reductions required in April 2, 1997, TRP filing (w/ 4.0 and 5.3 % X-Factors)		\$ 88.9
Impact of June 3, 1997, Within Band Filing	\$98.7	
Impact of CCL reductions due to increase in Multiline Business SLC cap to \$9.00 (Access Reform Order)	12.6	
Impact of LTS Exogenous Adjustment issued by NECA on May 21, 1997	(3.8)	
Total Reductions that would have been filed in the 1997 adjusted TRP absent 6.5 % X-Factor adjustments		\$ 196.4

VARIOUS SCENARIOS OF THE *PRODUCTIVITY FACTOR ORDER*

1) 6.5 % X-FACTOR IN 1996 AND 1997 FOR ALL TARIFF ENTITIES

Impact of Increased X-Factor in 1996 Tariff Year	\$ 38.9	
Impact of Increased X-Factor in 1997 Tariff Year	<u>25.1</u>	
Total Impact of 6.5 % X-Factor	64.0	
Total Reduction Required for this Scenario		\$ 260.4

2) 4.0 % X-FACTOR IN 1996 WITH SHARING OBLIGATION FOR PRIOR 4.0 % TARIFF ENTITIES AND 6.5 % X-FACTOR IN 1996 FOR PRIOR 5.3 % TARIFF ENTITIES -- ALL TARIFF ENTITIES HAVE 6.5 % IN 1997

Impact of Increased X-Factor for 5.3 % Tariff Entities in 1996 Tariff Year	\$ 6.8	
Impact of Increased X-Factor for All Tariff Entities in 1997 Tariff Year	<u>25.5</u>	
Total Impact of 4.0 % with Sharing and 6.5 % without Sharing	32.3	
Total Reduction Required Retaining 4.0 % for 4.0 % Tariff Entities and 6.5 % for 5.3 % Tariff Entities		<u>\$ 228.7</u>

Excess Reductions Resulting from the *Price Cap Order* **\$ 31.7**